TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 2668 – HB 2906

February 8, 2012

SUMMARY OF BILL: Requires the State Treasurer to establish a new defined contribution retirement plan for state employees beginning employment on or after January 1, 2013. Closes the existing defined benefit plan to state employees hired on or after January 1, 2013. Establishes the annual contribution to the defined contribution retirement plan on behalf of each new employee who enrolls to consist of an amount equal to at least two percent of the employee's earnable compensation, plus an employer match equal to 100 percent of the amount annually contributed by the employee up to a maximum of six percent of the employee's earnable compensation or, alternatively, up to a higher maximum that may be specifically prescribed in the general appropriations act. Defines multiple terms related to the new defined contribution retirement plan. Requires the State Treasurer to enter into a contract with a third party financial institution to manage the new plan. Authorizes the State Treasurer to establish policies and procedures and to promulgate rules and regulations to implement the provisions of the bill.

ESTIMATED FISCAL IMPACT:

Other Fiscal Impact – The fiscal impact for this bill is dependent upon multiple unknown factors. Based on information provided by the Tennessee Consolidated Retirement System (TCRS), unknown decreases in state expenditures are more likely over the short term due to the current state contribution rate to TCRS. However, the probability for increased state expenditures rises over the longer term due to future unpredictability of the state contribution rate to TCRS and future action taken by the General Assembly concerning possible match rate increases beyond six percent of the employee's earnable compensation for participants in the defined contribution plan. Otherwise, the fiscal impact for this bill cannot be quantified with reasonable certainty.

Assumptions:

- The net fiscal impact of this bill is dependent upon multiple unknown factors such as the extent of employee contributions made to the new defined contribution plan, action taken by the General Assembly concerning additional increases to the employer match rate beyond six percent of the employee's earnable compensation, the total state contribution rate to the new defined contribution plan in any given fiscal year, changes to the state contribution rate to the existing defined benefit plan of TCRS in any given fiscal year, the number of new plan participants, when new plan participants will begin to draw retirement benefits from the new defined contribution plan, rates of return on investment, gains and losses on plan assets when divested, plan expenditures for the new defined contribution plan including vendor and management fees, and changes in plan expenditures for the existing defined benefit plan of TCRS.

- To the extent total state contributions to the new defined contribution plan were below total state contributions that would have otherwise been made to the existing defined benefit plan, recurring state expenditures would decrease, holding all other factors constant.
- TCRS indicates the current contribution rate to the existing defined benefit plan of TCRS to be 14.91 percent, with an increase to 15.01 percent scheduled for July 1, 2012.
- TCRS indicates that a decrease in state expenditures is more likely over the short term due to the proposed state contribution rate to the new defined contribution plan being the sum of a minimum of two percent of the employee's earnable compensation plus an employer match up to six percent of the employee's earnable compensation.
- To the extent total state contributions to the new defined contribution plan exceeded total state contributions that would have otherwise been made to the existing defined benefit plan, recurring state expenditures would increase, holding all other factors constant.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

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